

## Message Text

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TAGS: ECON

SUBJECT: THE COLOMBIAN ECONOMY--LOPEZ'S FIRST YEAR

1. THIS TELEGRAM SUMMARIZES AIRGRAM-21 IN WHICH THE COLOMBIAN ECONOMY DURING PRESIDENT LOPEZ'S FIRST FULL YEAR OF OFFICE WAS DISCUSSED IN SOME LENGTH.

2. PRESIDENT LOPEZ'S FIRST FULL YEAR IN OFFICE, 1975, WAS A PERIOD OF STABILIZATION, CONSOLIDATION OF REFORM AND PLANNING. SO FAR, HIS RECORD IS IMPRESSIVE; INFLATION IS DOWN FROM 27 PERCENT TO 18 PERCENT; THE GOVERNMENT'S FINANCES ARE BEING MANAGED MORE SOUNDLY THAN IN THE PAST; A TAX REFORM IMPROVED PROGRESSIVITY WHILE INCREASING GOVERNMENT REVENUES BY 50 PERCENT; A SOUND AND PRACTICAL DEVELOPMENT PLAN WAS ARTICULATED AND LAUNCHED; AND WHILE STABILIZATION POLICIES DEEPENED A RECESSION THAT BEGAN IN 1974, GNP STILL GREW BY ABOUT FOUR PERCENT IN 1975.

THE LOPEZ ECONOMIC TEAM, HOWEVER, IS EMBARKED ON THE DIFFICULT COURSE OF MAKING THE ECONOMY MORE EFFICIENT THROUGH LIBERALIZATION, AND THIS PROCESS WILL HURT SOME PERSONS WHILE PROVIDING OTHERS ONLY THE MODEST KINDS OF PROGRESS ONE CAN REALISTICALLY EXPECT. MOREOVER, THE BUREAUCRACY, AND THE POLITICANS THAT FEED IT AND FEED ON IT, THREATEN TO CONSUME THE FRUIT OF FISCAL PROGRESS, THUS FRUSTRATING ATTEMPTS TO MAKE SIGNIFICANT INVESTMENTS IN

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SOCIAL INFRASTRUCTURE.

3. ONE OF THE CENTRAL QUESTIONS IN 1976 WILL BE HOW WELL THE ADMINISTRATION WILL BE ABLE TO SPEND ITS INCREASED FINANCIAL RESOURCES. THE ADMINISTRATION AND MANY OF ITS CRITICS FEAR THAT THE BUREAUCRACY WILL CONSUME ALL THE FRUITS OF THE FISCAL REFORM. THERE ARE ONLY ABOUT A MILLION AND A HALF TAXPAYERS INCLUDING BUSINESS ENTITIES IN COLOMBIA, AND IF THEY SEE THEIR INCREASED BURDEN FRITTERED AWAY, THEY MAY WITHDRAW SUPPORT OR TURN HOSTILE. THE ADMINISTRATION IS CONCERNED WITH THE PROBLEM BUT HAS ITSELF DESIGNED SOCIAL PROGRAMS THAT ARE CENTRALIZED AND BUREAUCRATIC. THE CONTRADICTION PERHAPS REFLECTS THE CLEAVAGE IN THE GOVERNMENT AND IN COLOMBIA BETWEEN CENTRALIZERS AND DECENTRALIZERS, A CLEAVAGE THAT IS PROBABLY THE MOST IMPORTANT POLITICAL DIVISION IN THE COUNTRY. THE COLOMBIAN ECONOMIC TEAM OF U.S. TRAINED TECHNOCRATS TEND TO BE DECENTRALIZERS TRUSTING THE MARKET TO ALLOCATE RESOURCES MORE THAN THEY TRUST BUREAUCRATS TO DO SO. THE BUREAUCRATS, BECAUSE OF SELF-INTEREST AS WELL AS IDEOLOGY AND INERTIA, ARE CENTRALIZERS. BUSINESSMEN ON THE OTHER HAND, SEEM TO BELIEVE IN EFFICIENT MARKETS FOR EVERYONE BUT THEMSELVES. MOST BANKERS HERE, FOR INSTANCE, COMPLAIN ABOUT GOVERNMENT CONTROLS BUT THEY DO NOT RELISH FREE-MARKET INTEREST RATES, THE DEVELOPMENT OF WHICH IS KEY TO THE GOVERNMENTS MACRO ECONOMIC POLICY, BECAUSE THEY ENJOY THE LARGE SPREADS AND LOW RISKS WHICH THE DISTORTED AND CONCENTRATED MARKETS PROVIDE THEM.

4. THE ADMINISTRATION CHOSE A DIFFICULT GOAL IN DECENTRALIZATION AND LIBERALIZATION AND MADE ONLY MODEST PROGRESS TOWARDS IT LAST YEAR. BUT 1975 WAS A YEAR OF STABILIZATION AND REFORM AND A YEAR OF HIGH UNEMPLOYMENT AND SAGGING OUTPUT, SO ONE COULD NOT EXPECT MUCH PROGRESS ON THE LIBERALIZATION FRONT. UNDER THE COLOMBIAN GAME PLAN, A VIGOROUS EXPORT SECTOR IS SUPPOSE TO GENERATE THE EMPLOYMENT AND THE FOREIGN EXCHANGE THAT WILL ALLOW RELATIVELY PAINLESS ADJUSTMENT. IT IS FOR THIS REASON THAT COLOMBIA IS SO CONCERNED ABOUT PROTECTION IN THE U.S. MARKET.

5. SO FAR, THE LOPEZ ECONOMIC GAME PLAN HAS PRODUCED RESULTS THAT IMPRESS THE WELL-INFORMED, AND CRITICISM HAS BEEN SUBDUED. THE MAN ON THE STREET IS SKEPTICAL, HOWEVER, AS HE CONTINUES TO SEE PRICES INCREASE AND EMPLOYMENT GROW ONLY SLOWLY. MOREOVER, THE

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GRAPEVINE IS INVARIABLY LOADED WITH USUALLY CRITICAL MISINFORMATION, AND THE GRAPEVINE IS THE SOURCE OF KNOWLEDGE FOR MOST COLOMBIANS, INCLUDING IMPORTANT, PRESUMABLY WELL-INFORMED COLOMBIANS. TECHNICALLY IMPRESSIVE PERFORMANCE MAY NOT DO. SLAM-BANG RESULTS ARE REQUIRED TO INFLUENCE THE GRAPEVINE AND SUCH RESULTS ARE USUALLY SCARCE.

6. COLOMBIA HAS A LOT GOING FOR IT ECONOMICALLY. IT HAS THE

NECESSARY HUMAN AND MATERIAL RESOURCES, THE GEOGRAPHICAL LOCATION, THE RATE OF URBAN GROWTH IS SLOWING DOWN, AND POPULATION GROWTH IS DECLINING. IT HAS PASSED ONE OF THE MOST DIFFICULT STAGES OF ADJUSTMENT AWAY FROM IMPORT SUBSTITUTION. OIL IMPORTS WILL COST GROWING AMOUNTS OF FOREIGN EXCHANGE, BUT THE INTERNATIONAL ADJUSTMENT MECHANISM WORKS, AND THERE IS NO STRUCTURAL BALANCE OF PAYMENTS PROBLEM. A GROWTH RATE OF SIX TO SEVEN PERCENT SHOULD BE EASILY ACHIEVED AND SHOULD THE LOPEZ ADMINISTRATION SUCCEED IN LIBERALIZING THE ECONOMY AND MAKING IT MORE MARKET DETERMINED, EVEN HIGHER GROWTH RATES SHOULD BE POSSIBLE AFTER 1976-77.

7. IF CONTINUED PROGRESS CAN BE MADE TOWARD LIBERALIZATION AND THE DEVELOPMENT OF EFFICIENT MARKETS, COLOMBIA SHOULD BECOME INCREASINGLY LESS VULNERABLE TO THE POLITICAL CYCLE WITH ITS CONSTANTLY CHANGING GAME PLANS. MOREOVER, GREATER LIBERALIZATION AND REDUCED DIRECT CONTROLS SHOULD DECREASE OPPORTUNITIES FOR CORRUPTION AND PRESSURES FOR PATRONAGE. AS WE LOOK OVER THE COLOMBIAN SCENE WE CONCLUDE THAT THE THREAT TO THE CONTINUED EVOLUTION TOWARDS LIBERAL DEMOCRACY IS NOT THE REVOLUTION OF RISING EXPECTATIONS, OR EVEN THE SKEWED INCOME DISTRIBUTION, BUT A DEEPLY INGRAINED CYNICISM. THIS CYNICISM IS CLOSELY ASSOCIATED WITH CORRUPTION, AND THE CORRUPTION CANNOT BE SEPARATED FROM THE IMPORT SUBSTITUTION POLICIES AND THE DIRECT CONTROL ON THE ECONOMY THAT ARE ASSOCIATED WITH THOSE POLICIES.

8. IN ADDITION, IN COLOMBIAN HIGH SCHOOLS AND UNIVERSITIES THE YOUTH IS SUBJECTED TO AN OVERWHELMINGLY MARXIST VIEW OF THE WORLD. EVEN IF THE REVOLUTIONARY FERVOR FADES WITH AGE, THIS GENERATION HAS BEEN SOLD A BILL OF GOODS AND HAS BEEN TAUGHT A CLICHE-RIDDEN WORLD VIEW THAT WILL NOT HELP IT UNDERSTAND COLOMBIA'S PROBLEMS. THEIR INFLUENCE ALONE COULD CHANGE SOUND  
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POLICIES INTO UNSOUND POLICIES. UNSOUND POLICIES WILL MEAN GREATER CONTROLS, SLOWER GROWTH, GREATER VULNERABILITY TO SHORT-TERM POLITICAL FACTORS, GREATER CORRUPTION, AND INCREASED CYNICISM. THEREFORE, WE VIEW ECONOMIC LIBERALIZATION NOT ONLY AS SOUND ECONOMICS BUT AS THE COURSE MOST COMPATIBLE WITH THE DEVELOPMENT OF A LIBERAL DEMOCRACY IN COLOMBIA. AND THIS CONCERNS US BECAUSE NOT MANY PEOPLE REALLY RELISH THE SHORT RUN ADJUSTMENTS SUCH POLICIES REQUIRE AND PERHAPS ONLY A FEW EVEN BELIEVE IN THE GOAL.

9. THE UNITED STATES COULD HAVE AND SHOULD HAVE A SIGNIFICANT INFLUENCE ON COLOMBIAN EFFORTS TOWARDS ECONOMIC LIBERALIZATION. WERE THE U.S. TO LIBERALIZE ITS TRADE IN THOSE SECTORS WHERE IT IS NATURAL THAT COLOMBIA GROW, THE ADJUSTMENT IN COLOMBIA WOULD BE CAUSED BY SUCTION TOWARD THE GROWING EDGE

RATHER THAN BY PUSHING IT FROM THE WEAK EDGE. SUCH ADJUSTMENT IS  
FASTER AND POLITICALLY EASIER.  
MOREOVER, IT IS SELF-ACCELERATING BECAUSE OF THE CIRCULAR  
FLOW OF GOODS AND INVESTMENT. HOWEVER, SUCH AN EVENTUALITY IS NOT  
LIKELY BECAUSE PAINFUL LIBERALIZATION IS MOST DIFFICULT TO  
ACHIEVE AND THE KINDS OF DOMESTIC PROGRAMS THAT WOULD ALLOW PAIN-  
LESS ADJUSTMENT IN THE U.S. ARE NOWHERE IN SIGHT.  
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